

Message Text

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ACTION NEA-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

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USIA-15 IO-14 AID-20 EB-11 OMB-01 COME-00 TRSE-00

FEA-02 SCI-06 CIEP-02 AGR-20 STR-08 DRC-01 DOTE-00

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TO SECSTATE WASHDC 7883

INFO AMEMBASSY NEW DELHI

AMCONSUL CALCUTTA

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SUBJECT: INDO/NEPALESE ECONOMIC RELATIONS

REF: NEW DELHI 3547

1. WE HAVE READ WITH MUCH INTEREST DELHI'S REPORT OF KIRAN DOSHI'S RUNDOWN ON CURRENT STATUS OF INDO/NEPALESE ECONOMIC RELATIONSHIP. ADDRESSEES MAY BE INTERESTED IN OUR REACTIONS TO SOME OF DOSHI'S OBSERVATIONS.

2. ON PETROLEUM, IT REMAINS TO BE SEEN WHETHER NEPAL WILL, IN COMING YEAR, ACTUALLY PURCHASE AS MUCH AS HALF ITS REFINED OIL REQUIREMENTS FROM COUNTRIES OTHER THAN INDIA. ACCORDING TO GON OFFICIALS, ANTICIPATED DEMAND WOULD NOT REQUIRE THIS IF INDIA FULFILLS ITS UNDERTAKING TO SUPPLY AT 1973 LEVELS. WITH RESPECT TO CEMENT, GERMAN-AIDED FACTORY, WHICH IS EXPECTED TO GO ON STREAM IN NEXT FEW MONTHS, WILL MEET A SIGNIFICANT PROPORTION OF NEPAL'S REQUIREMENTS AS LONG AS RAW MATERIALS FOR IT AVAILABLE. INDIAN-
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AIDED PLANT, WHEN COMPLETED, WILL THUS PROBABLY LEAVE SUBSTANTIAL

SURPLUS FOR EXPORT TO INDIA AND THIRD COUNTRIES.

3. IN MORE GENERAL TERMS, ALTHOUGH NEPALESE EVIDENTLY DESIRE TO MOVE TOWARD GREATER MEASURE OF SELF-RELIANCE, PARTICULARLY IN ESSENTIAL COMMODITIES, LINKAGES OF ECONOMIC RELATIONSHIP WITH INDIA ARE SO TIGHT THAT FULL SELF-RELIANCE AS GOAL LIKELY TO REMAIN MORE IN AREA OF ASPIRATION THAN REALITY. PRIME REQUIREMENT FOR NEPAL IS TO CONTINUE TO DEVELOP ITS ECONOMIC AND OTHER RELATIONSHIPS WITH INDIA IN WAYS THAT ARE MUTUALLY BENEFICIAL. IN THIS CONTEXT, CHANGE IN NEPALESE PERCEPTION OF INDIA AND OF ITS WAY OF DOING BUSINESS WOULD BE WELCOME, BUT WE SEE FEW SIGNS THAT THIS IS ACTUALLY TAKING PLACE. HIS MAJESTY HAS ON SEVERAL OCCASIONS ANNOUNCED THAT TIES WITH INDIA HAVE BEEN PUT ON MORE MATURE AND SOBER BASIS, BUT EMOTIONAL SENSITIVITY TO REAL AND IMAGINED INDIAN SLIGHTS AND PRESSURES REMAIN. (RECENT BIRATNAGAR INCIDENT LIKELY TO REINFORCE NEPALESE TENDENCY TO BE WARY OF INDIAN INTENTIONS.) WITH POSSIBLE EXCEPTION OF SOME RAW MATERIAL IMPORTS, WE DO NOT ANTICIPATE THAT GENERAL DIVERSIFICATION OF NEPAL'S FOREIGN TRADE WILL TAKE PLACE IN NEXT FEW YEARS OR WILL SIGNIFICANTLY MODIFY NEPAL'S TRADITIONAL ATTITUDES, THOUGH SOME POSITIVE EVOLUTION MAY TAKE PLACE TO DEGREE THAT AREAS OF ECONOMIC SELF-SUFFICIENCY ARE DEVELOPED OR WHERE NEPAL IS FORCED BY INTERNATIONAL OR INDIAN CONDITIONS TO PROCURE FROM THIRD COUNTRIES WHAT IS NOW OBTAINED FROM INDIA.

4. QUESTION OF NEPAL'S ABSORPTIVE CAPACITY IS SOMEWHAT MORE COMPLEX THAN DOSHI SUGGESTS. NEPAL IS STILL ABLE TO ABSORB FAIRLY CONSIDERABLE RESOURCES FOR TURNKEY AND INFRASTRUCTURE PROJECTS SUCH AS ROADS, AIRPORTS, CEMENT PLANTS, ETC. HOWEVER, THERE IS NOW CRITICAL CONSTRAINT ON ABSORPTIVE CAPACITY IN TERMS GON'S HUMAN RESOURCES PARTICULARLY FOR MANAGEMENT AND PLANNING SKILLS AND FOR ONGOING MAINTENANCE AND OPERATIONS IN SOME AREAS. PROBLEM IS NOT MERELY ONE OF CONCEPTUALIZING LARGE PROJECTS (FOR EXAMPLE, KARNALI), BUT OF ALLOCATING RESOURCES, SETTING PRIORITIES AND EVALUATING EXISTING PROJECTS. LACK OF TRAINED MANPOWER AND RELUCTANCE TO ACCEPT EXPANSION OF FOREIGN TECHNICAL ASSISTANCE FURTHER LIMIT GON'S ABILITY TO USE EXISTING AID EFFECTIVELY.

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